Sloan v. Commissioner, T. C. Memo. 1994-584

Altering the jurat on a tax return by adding a denial or disclaimer invalidates the return, preventing the election of joint filing status.

Summary

Lorin G. Sloan, convicted of tax evasion, attempted to file Forms 1040 for the years 1981-1983 with a "Denial and Disclaimer" added to the jurat, claiming wages were not taxable. The Tax Court held that these forms did not constitute valid returns due to the alterations, thus Sloan could not elect joint filing status. The court also imposed a $2,500 penalty under section 6673 for Sloan's frivolous and groundless tax protester arguments. The decision underscores the importance of an unaltered jurat in validating a tax return and highlights the consequences of engaging in tax protester tactics.

Facts

Lorin G. Sloan was convicted of income tax evasion for the years 1981, 1982, and 1983. He later attempted to file Forms 1040 for these years on October 14, 1993, electing "Married filing joint return" status. However, Sloan and his wife added a "Denial and Disclaimer" statement to each form, denying liability for the reported taxes and disclaiming any "status" that might be inferred from the form. The IRS did not accept these forms as valid returns.

Procedural History

Sloan filed a petition in the U. S. Tax Court challenging the IRS's deficiency determinations for the years 1981-1983. The court granted partial summary judgment to the IRS on the fraud additions to tax based on Sloan's criminal convictions. The remaining issues were whether Sloan could elect joint filing status and whether a penalty under section 6673 should be imposed. After trial, the court ruled on these issues, finding against Sloan on both.

Issue(s)

1. Whether Forms 1040 with added "Denial and Disclaimer" statements constitute valid income tax returns.
2. Whether Sloan is entitled to compute his tax using joint filing status rates.
3. Whether a penalty should be imposed under section 6673 for maintaining frivolous or groundless positions.

Holding

1. No, because the addition of the "Denial and Disclaimer" invalidated the returns by qualifying the jurat.
2. No, because Sloan did not file valid returns, and thus could not elect joint filing

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status.
3. Yes, because Sloan maintained frivolous and groundless positions for a significant portion of the case, warranting a $2,500 penalty.

Court’s Reasoning

The court relied on the principle that a tax return must be filed “according to the forms and regulations prescribed by the Secretary,” which includes an unaltered jurat. Sloan’s addition of the “Denial and Disclaimer” statement qualified the jurat, creating uncertainty about the accuracy of the return and impeding the IRS’s administration of tax laws. The court cited cases like *United States v. Moore* and *Beard v. Commissioner* to support its conclusion that such alterations invalidate a return. Furthermore, the court noted that Sloan’s wife’s disclaimer suggested she did not intend to be jointly and severally liable, further undermining the validity of the joint filing election. The court also found Sloan’s tax protester arguments to be frivolous and groundless, justifying the imposition of a penalty under section 6673.

Practical Implications

This decision emphasizes the importance of filing unaltered tax returns, particularly with respect to the jurat. Tax practitioners should advise clients that any modification to the jurat, including disclaimers or protests, can invalidate the return and lead to adverse tax consequences. The ruling also serves as a warning to tax protesters that persisting with frivolous arguments can result in penalties. Courts in subsequent cases have cited Sloan when addressing the validity of tax returns with modified jurats, reinforcing the bright-line rule established here. Additionally, this case demonstrates that even after a criminal conviction for tax evasion, the IRS and courts will continue to scrutinize subsequent filings for compliance with tax laws.

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